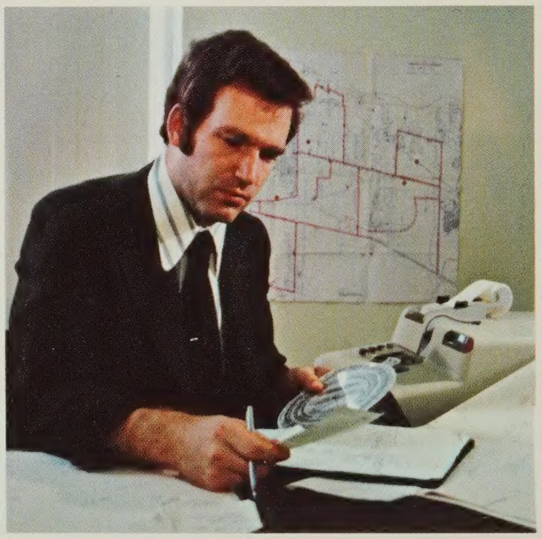
UNION GAS 1975 ANNUAL REPORT

file

On the Cover:
The photographs on the cover and throughout this Report provide an insight into the work of some of the people who make Union Gas "go". Without the skills and effort of all of our employees, it would not be possible to have a successful utility operation.



Lands Agent Jack Thompson (left) obtains pipeline easement from Chatham area farmer.

Architectural Services Co-ordinator Les McCracken (left) inspects construction of new gas control room at Dawn compressor station.

Technologist Peter Karelse (background) and Draftsman Gary Vynckier of Union's Geology department prepare cross-section of underground gas storage pool.

Switchboard Operator/ Receptionist Diane Lusted greets a visitor to Northern division headquarters at Waterloo.

Planning Engineer Ross Parker, Head Office, calculates pipe sizes required for proposed distribution system expansion.

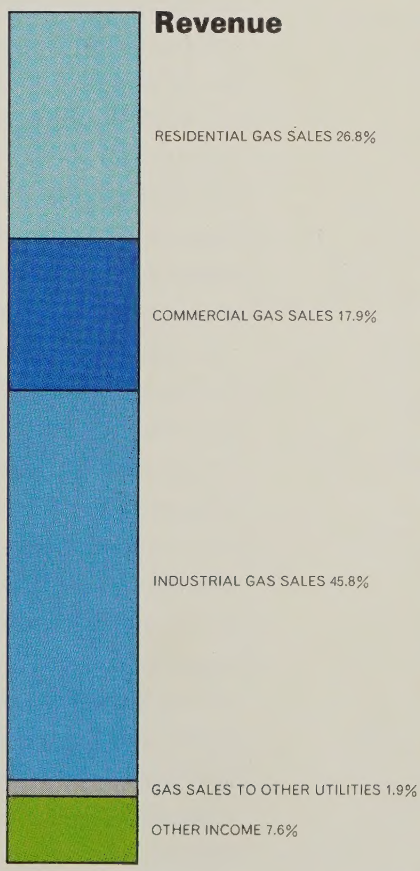
London Personnel Manager Jim McLachlin (left) discusses staff structure with Organization Analysis Supervisor Don Adams, Head Office.

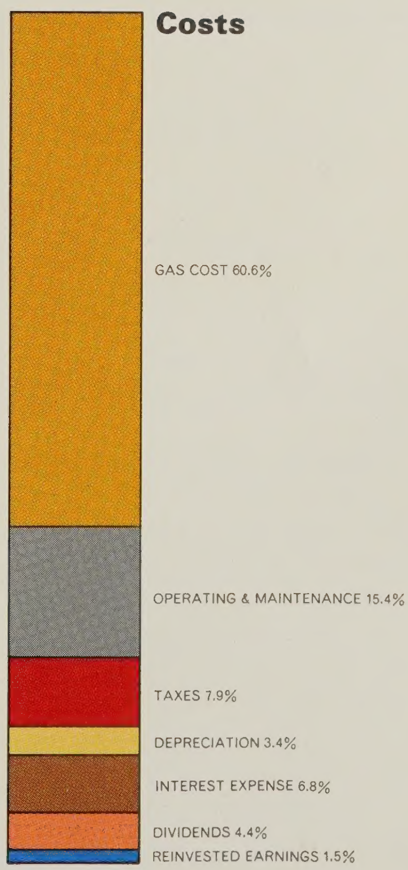
Union Gas Limited annual report for the year ended March 31, 1975

Comparative Highlights

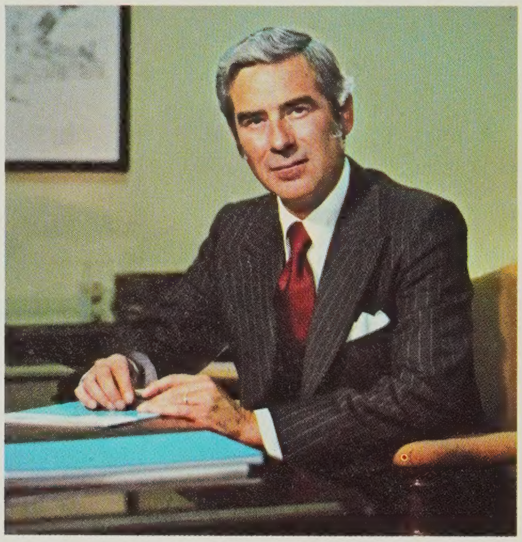
FISCAL YEARS ENDED MARCH 31	1975	1974	% INCREASE (DECREASE)
Gas sales and other income	$240,800,000	$189,911,000	26.8
Net income for the year	$ 14,210,000	$ 12,704,000	11.9
Dividends on preference shares	$ 998,000	$ 1,010,000	(1.2)
Earnings applicable to common shares:			
Total	$ 13,212,000	$ 11,694,000	13.0
Per share	87.4¢	77.4¢	
Dividends declared on common shares:			
Total	$ 9,672,000	$ 9,672,000	—
Per share	64.0¢	64.0¢	—
Natural gas sales MCF*	233,118,000	220,498,000	5.7
Total customers at year end	390,000	378,000	3.2
Average gas use per customer MCF*			
Residential	134.7	134.6	—
Commercial	1,013.7	947.3	7.0
Maximum day send-out MCF*	1,879,000	1,903,000	(1.3)
Construction expenditures	$ 43,805,000	$ 28,124,000	55.8
Gross properties at year end	$408,327,000	$367,174,000	11.2

*MCF means thousand cubic feet





Ron W. Todgham, Chairman of the Board and William G. Stewart, President and Chief Executive Officer.



Letter to the Shareholders

For fiscal 1975 your Company was successful in improving earnings by 13% over those for the previous year. Earnings per common share were 87.4¢, compared with 77.4¢ for fiscal 1974. Net income increased $1.5 million to $14.2 million. However, the overall rate of return on utility rate base was 9.0% compared with the 9.6% found fair and reasonable by the Ontario Energy Board in October, 1974. Overall growth in the scope of operations is shown in the "Comparative Highlights" listed on the preceding page.

The Company originally filed its main rate application with the Ontario Energy Board in May 1973. Extensive public hearings by the Board began in January 1974, continued throughout fiscal 1975 and are still in progress. Discussions have been held over the past year with government and regulatory agencies concerning the adaptation of the regulatory process to present-day needs. A number of improvements have taken place. The lengthy procedures, which perhaps were acceptable in a period when there was seldom a need to adjust rates, are proving totally inadequate in the present rapidly shifting gas supply and price situation. We believe government recognizes that further improvement in the regulatory process is essential if Canada's investor-owned utilities are to be kept financially sound and able to attract the necessary capital for urgently needed new facilities.

The labour dispute which resulted in a strike by some 1,100 unionized employees early in 1974 carried over into the 1975 fiscal year, before being settled last July with the signing of new collective agreements. The disruptive effects of the strike created many problems and added significantly to the year's operating costs. Several months of intensive effort were required to restore the normal level of service to customers and ensure that necessary facilities were constructed in time for the winter period.

Gas prices continued to increase throughout the year. The rates currently being paid by your Company for gas supplies from outside Ontario are almost double those of only two years ago. Increases in producers' field prices (which include heavy provincial and federal royalty and tax levies) are the principal cause, though higher charges by pipeline companies are also a contributing factor. Gas costs are being directly influenced by higher domestic oil prices (which in turn reflect pricing actions taken by the members of the Organization of Petroleum Exporting Countries) and by the policies of the Federal and Alberta Governments.

In view of the effect of higher energy costs on inflation and unemployment rates, the Company fully endorses the position taken by the Province of Ontario at the First Ministers' Conference in April 1975 in opposing any increases in domestic oil and gas prices at this time. In order that the interests of the producers, the energy producing and consuming provinces and the Canadian consumer can be balanced, it is essential that prices be controlled at the Federal level and, consequently, we urged the enactment by Ottawa of the Petroleum

Administration Act. Your Company is encouraged by the recent passage of this Act which empowers the Federal Government to overrule the recent award by the Alberta Arbitration Board which set a field price of $1.15 per Mcf for gas purchased by TransCanada from Gulf Oil, effective November 1, 1975.

With control of the price of oil and gas sold outside the province of origin, the Government of Canada now has the means to maintain price stability for these vital ingredients of the Canadian economy.

It is frequently argued by supporters of higher gas prices that further increases are necessary in order to encourage exploration and development of reserves. In effect, however, the higher prices now being paid are benefiting primarily the Federal and Alberta Governments and the amount of increase going to producing companies appears to be quite insufficient as an incentive for further exploration. Until the royalty and taxation questions are resolved, your Company is of the opinion that further price increases are unwarranted, as they will not encourage exploration in Western Canada. Payment of higher field prices for gas already discovered makes no economic sense, regardless of whether the benefit of the higher prices goes to government or the producing industry. Incentives for additional exploration should be formulated so as to avoid unjustified and excessive increases and should be directly related to the identification of new reserves.

The outlook for gas supply continues to be of concern. While TransCanada PipeLines Limited plans to deliver increased volumes to Union in fiscal 1976, these will not be sufficient to meet the growing demand for certain classes of natural gas service. As a result, several potential industrial customers have had to contract for alternate supplies of energy.

TransCanada is making every effort to continue deliveries at present contract levels. However, the rate of production from those gas fields in Western Canada now under contract to TransCanada is declining and, unless it is successful in obtaining approval of the Alberta Government for the attachment to its system of gas production from new fields, the annual delivery rate will decrease, commencing in late 1976.

The National Energy Board has been conducting a hearing into the supply and deliverability of natural gas in Canada and will report to the Federal Cabinet soon. Union Gas participated throughout the hearing and in its statement to the National Energy Board on this matter urged strong Federal Government control of supplies, in order that the limited existing reserves can be managed in the best interests of Canadian gas users.

Your Company believes that the Mackenzie Delta and Beaufort Sea areas will provide the earliest and most economical sources of significant new supplies. We are continuing as a participant in Canadian Arctic Gas Study Limited, which has applied for approval to construct a pipeline extending from the Alaska border and the Mackenzie Delta, through the Northwest Territories and Alberta, to connect with pipelines transporting gas to eastern Canada and the northern United States. It is estimated that the Canadian portion of this pipeline will cost some $6 billion, and that a common equity investment of $1.4 billion will be required if the project is to be successfully financed.

It is both logical and essential that utilities such as Union Gas, which will be relying on these new supplies, should participate financially in the pipeline project. Union Gas, therefore, has agreed to invest up to $68 million in the common share equity of the proposed pipeline company. This commitment is subject to certain conditions, including the obtaining of all required government approvals for the project and the necessary financing being completed on terms acceptable to Union. It is, of course, also dependent upon present legislation being changed to permit the reflection in utility rates of the costs associated with such investments.

In March 1975 the Federal Government imposed a general 10% temporary surtax on corporate profits, retroactive to May 1, 1974. The position of the Canadian gas industry is that since the natural gas utilities are regulated and their earnings rigidly controlled, the surtax is totally inappropriate in their case and in fact negates decisions of regulatory authorities as to allowable earnings levels. Union Gas has protested strongly, though unsuccessfully, to the Minister of Finance against the application of this surtax to utilities. Due to the short-term, non-recurring nature of the surtax, a request to the Ontario Energy Board to allow its inclusion in rates to customers was unsuccessful. However, the Company has received approval of the Energy Board to record in the accounts only the portion of the tax currently payable. An appeal for refund of the surtax is now being made under the Financial Administration Act because the Company feels that in its case the tax is unjust.

The events of the past year called for extraordinary effort on the part of many employees and their fine response is reflected in the results contained in this Report. The Directors and management are confident that the challenges facing the Company will be met and that continued growth and improvement can be achieved.

On behalf of the Board of Directors.

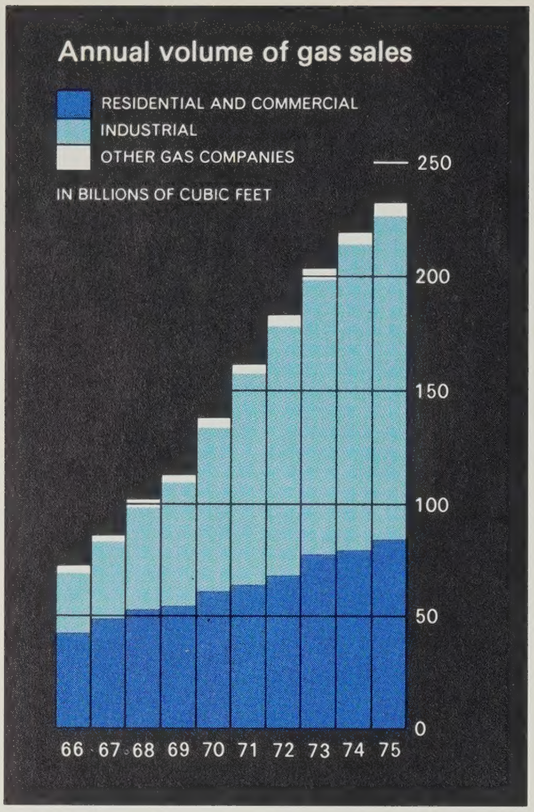
Ross W. Todgham

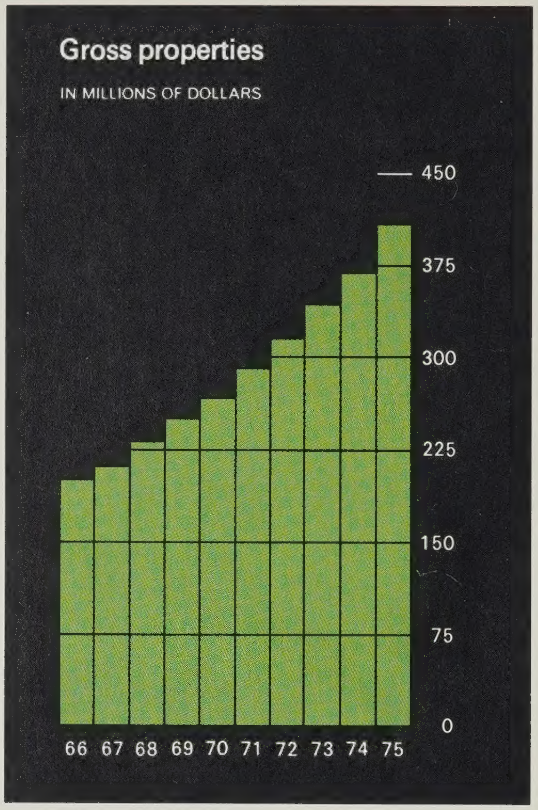
Chairman of the Board

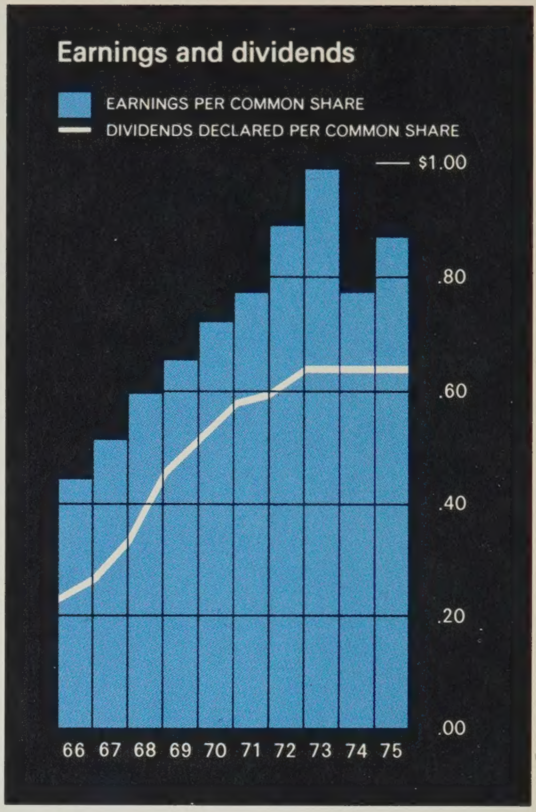
[signature]

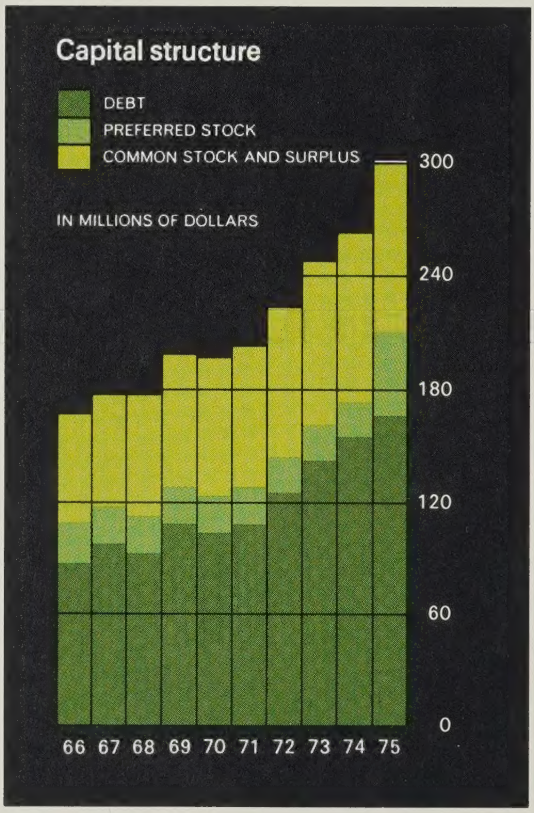
President and Chief Executive Officer

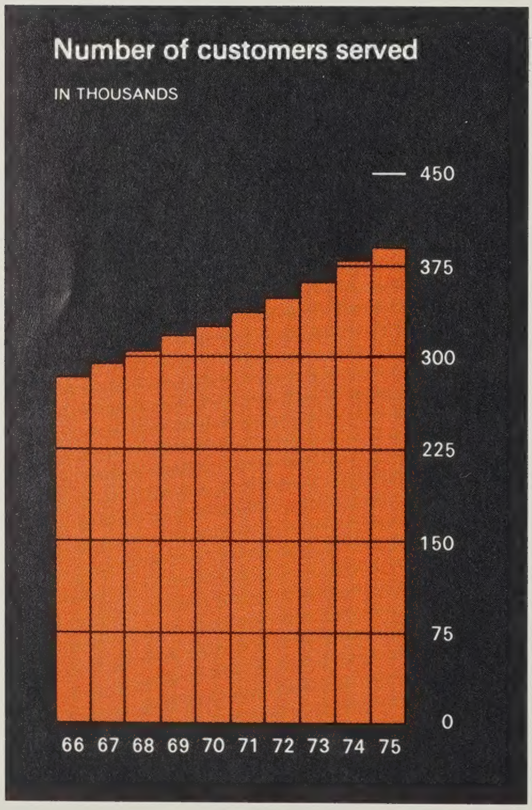
Chatham, Ontario, May 16, 1975

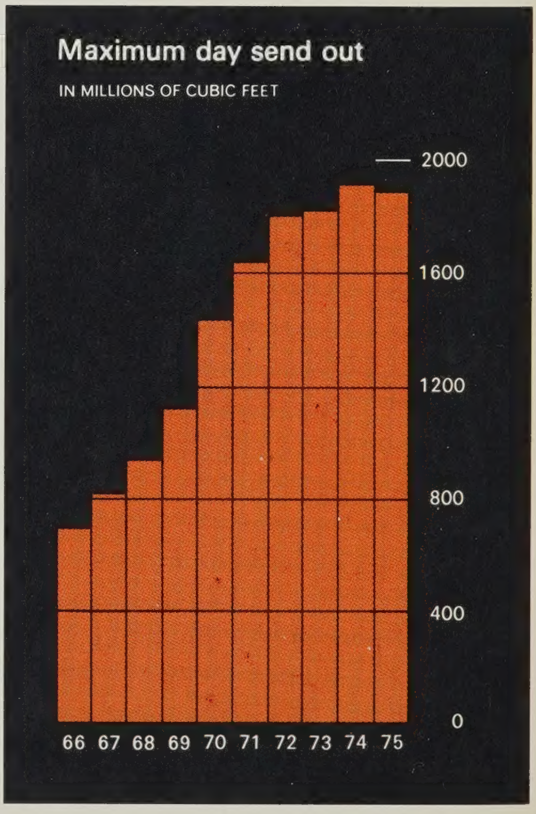

Annual volume of gas sales
RESIDENTIAL AND COMMERCIAL
INDUSTRIAL
OTHER GAS COMPANIES
IN BILLIONS OF CUBIC FEET
250
200
150
100
50
0
66 67 68 69 70 71 72 73 74 75


Gross properties
IN MILLIONS OF DOLLARS
450
375
300
225
150
75
0
66 67 68 69 70 71 72 73 74 75


Earnings and dividends
EARNINGS PER COMMON SHARE
DIVIDENDS DECLARED PER COMMON SHARE
$1.00
.80
.60
.40
.20
.00
66 67 68 69 70 71 72 73 74 75


Capital structure
DEBT
PREFERRED STOCK
COMMON STOCK AND SURPLUS
IN MILLIONS OF DOLLARS
300
240
180
120
60
0
66 67 68 69 70 71 72 73 74 75


Number of customers served
IN THOUSANDS
450
375
300
225
150
75
0
66 67 68 69 70 71 72 73 74 75


Maximum day send out
IN MILLIONS OF CUBIC FEET
2000
1600
1200
800
400
0
66 67 68 69 70 71 72 73 74 75

Review of Operations

Financial Review

Revenue. Total revenue for the 1975 fiscal year of $240.8 million represented an improvement of $50.9 million, or 26.8% over that for the previous fiscal year.

Gas sales volumes of 233.1 Bcf were affected by a slowdown in economic activity in the industrial sector and a growing awareness on the part of our customers of the need for conservation.

Revenue from gas sales was $222.5 million. This was a gain of 27% over fiscal 1974 revenues and represents a 21% increase due to higher rates to customers and a 6% increase due to volumes of gas sold. Other income, derived principally from the transportation and storage of gas for other companies, rental of gas appliances and equipment, customer service charges and interest on merchandise accounts, increased 20% to $18.3 million.

Costs. The most substantial cost increase was a 32.9% rise in the cost of gas to Union. This resulted from higher field prices being paid in Western Canada by our supplier, TransCanada PipeLines, as well as increased transportation charges authorized for TransCanada by the National Energy Board. Union's other principal supplier, Panhandle Eastern Pipe Line Company, received approval of the U.S. Federal Power Commission for significantly increased charges. With the approval of the Ontario Energy Board, these gas cost increases have been included in the rates charged to Union's customers.

Interest expense for the year increased 23.9% to $16.3 million. This increase resulted from the greater amount of long-term debt outstanding at higher average interest rates and the larger short-term borrowings throughout the year.

Income Taxes. The income tax provision of $14.8 million was $2.6 million greater than for fiscal 1974. Of the increase, $518,000 is attributable to the temporary surtax imposed by the Federal Government, retroactive to May 1, 1974. This brought the effective rate of income taxes to 51% as compared with 49% for the 1974 fiscal year.

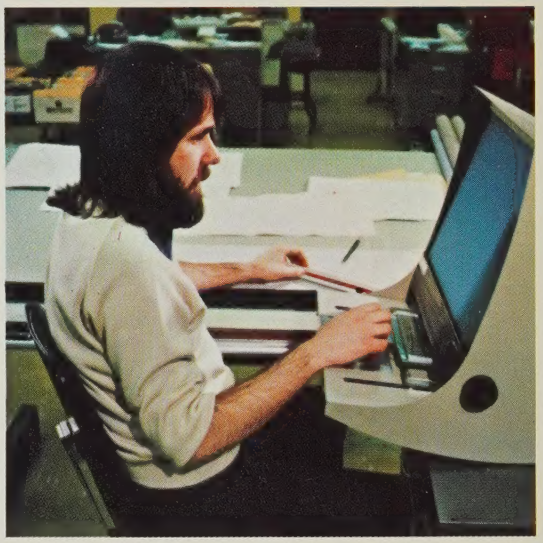
Gas Sales Volume and Revenue

	Volume in millions of cubic feet			Revenue in thousands of dollars		
Class of customer:	Year to March 31 1975	% of total	% over 1974	Year to March 31 1975	% of total	% over 1974
Residential	45,786	19.6	3.4	$ 64,548	29.0	20.7
Commercial	37,866	16.3	10.6	43,109	19.4	29.4
Industrial	143,810	61.7	5.1	110,198	49.5	30.6
Other gas distributors for re-sale	5,656	2.4	11.2	4,616	2.1	34.1
Total	233,118	100.0	5.7	$222,471	100.0	27.4

Capital Structure

At March 31, 1975 total capitalization was as follows:	in thousands of dollars	% of total
Common shares	$ 31,346	
Accumulated earnings retained for use in the business	60,277	
Total common equity	91,623	30.6
Preference share equity	43,309	14.4
Total equity	134,932	45.0
Long term debt (exclusive of portion to be retired within 12 months and carried on the balance sheet as a current liability)	164,908	55.0
Total capitalization	$299,840	100.0





Distribution system Construction Inspector Bruno Giavedoni (left) confers with Leak Surveyman Walt Speare, at job site in Hamilton.

Corrosion Technician Jim Sinclair checks operation of cathodic protection system installed to prevent corrosion of Lambton county pipeline.

Chatham division Draftsman Les Smith refers to microfilm records of existing facilities before preparing drawing of new distribution line.

Stockkeeper John Millerson (left) and Warehousing Supervisor Doug Ditchfield check inventory levels in London service centre stockroom.

Supervisor, Maintenance Planning, Dave Mitchell (standing) reviews operation of pressure regulator with Maintenanceman Alvin Francis at Hamilton.

Financing. In July 1974 the Company sold $25 million 11% Sinking Fund Debentures, 1974 Series, due August 15, 1994, at par.

Following shareholder approval on March 3, 1975 of the redesignation of the existing preference shares and the creation of a new class of preference shares, 1,250,000 8¾% Cumulative Convertible Class B Preference Shares, Series 1, par value $20, were sold on March 31, 1975. The resulting infusion of $25 million of new equity into the Company's capital structure strengthens its financial condition.

The proceeds of these two financing issues were applied to the reduction of bank loans and other short-term borrowings incurred for general corporate purposes and to finance additions to properties.

Investment in Major Holdings & Developments Limited. Union Gas owned 765,905 common shares of Major Holdings at March 31, 1975, representing 35.6% of the outstanding shares. The operations of Major Holdings for the year ended December 31, 1974 were the best in its history, with earnings per share of 51¢ compared with 26¢ the previous year. Projects are now underway in the Cities of Kitchener, Waterloo, Cambridge, Sarnia, Guelph and Windsor, and satisfactory progress for Major is indicated in 1975 and beyond. The similarity of interests of the two companies in the growth of the municipalities in Southwestern Ontario provides mutual advantages in our association.

Rates and Regulation The public hearing before the Ontario Energy Board into Phase I of Union's May 1973 application for a full rate review began in January 1974 and was concluded in August 1974. This resulted in a Decision of the Ontario Energy Board, received in October 1974, establishing the Company's allowable rate of return as 9.6% on a rate base of $318.7 million. The Energy Board found, under existing rate schedules, an annual revenue deficiency of $10.6 million. In calculating the deficiency the Board recognized the need for the recovery in rates of unavoidable increases in the Company's operating costs.

In November 1974, an application was filed with the Energy Board for appropriate rate changes to reflect the Phase I Decision, as well as to recover further increases in the cost of gas. These resulted from decisions of the National Energy Board, which allowed TransCanada to increase its charges by 2.5¢ per Mcf effective September 1, 1974 and 24.2¢ per Mcf effective November 1, 1974, and of the Federal Power Commission authorizing Panhandle Eastern to increase its charges, effective December 1, 1974, to a level of 8.5¢ per Mcf higher than previously included in Union's rates.

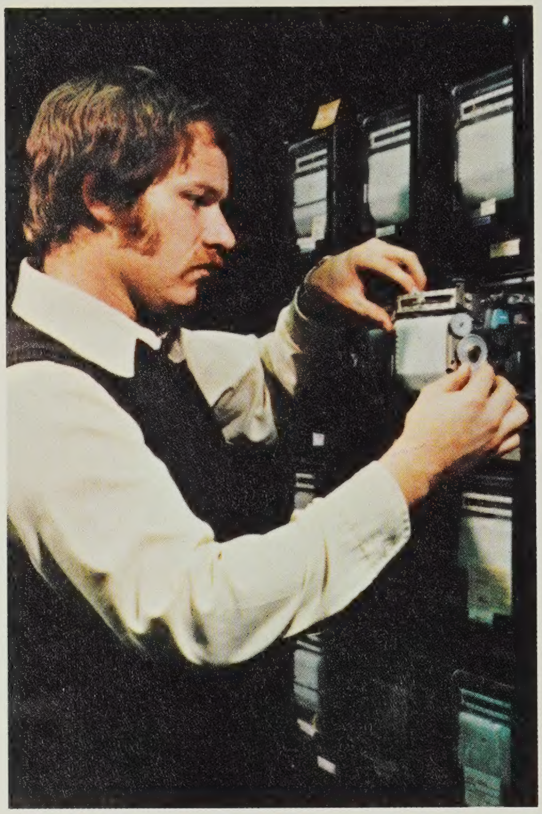
Following a hearing in December 1974, the Ontario Energy Board approved, on an interim basis and effective January 1, 1975, the rates proposed by the Company in its November 1974 filing, pending a complete review. The Phase II public hearing into the rate design began January 20, 1975 and is continuing.

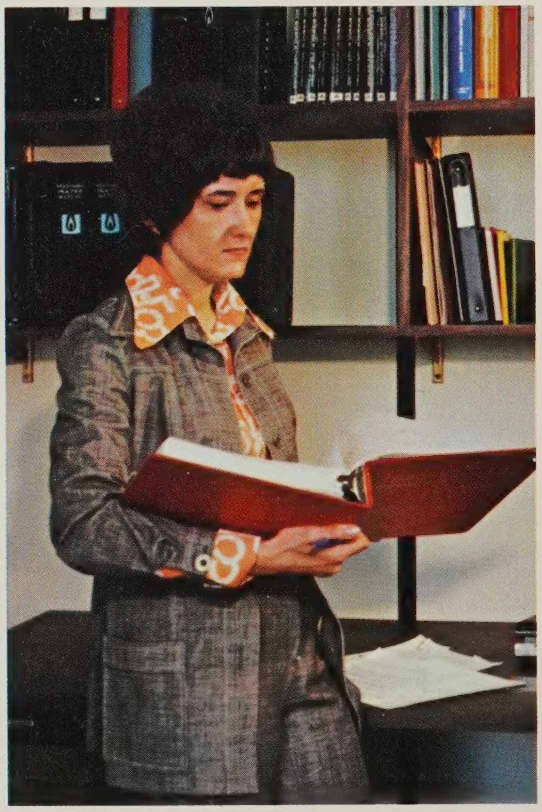
Effective April 1, 1975, TransCanada received approval to increase its rates by approximately 1.4¢ per Mcf, to reflect increases in costs to be experienced in 1975. Further increased charges have been authorized for Panhandle Eastern. The charges by Panhandle to Union increased by 6.5¢ per Mcf February 2, 1975 and another 3.8¢ per Mcf April 1, 1975. These higher charges are a result of the greater gas purchase costs and other higher costs being incurred by Panhandle.

On April 17, 1975 Union applied to the Ontario Energy Board for approval to recover in its rates, on an interim basis and effective May 1, 1975, increased gas purchase costs, as well as the increased costs of maintaining higher levels of the more expensive gas in storage inventory to ensure availability of adequate volumes to meet the heating requirements of our customers. This application was heard on May 14 and 15, 1975 and it is anticipated that a decision will be received without undue delay.

In January 1975 hearings were held on an application by TransCanada to include in rate base and reflect in its rates over a reasonable period of time the cost of economic feasibility studies into the manufacture of natural gas from coal. Union Gas


PITMAN
HYDRA-LIFT





Stenographer Jackie MacGregor types report for Transmission and Production department at Simcoe.

Crane Operator Lyle Knight loads pipe at Dawn Compressor station.

Gas Dispatcher Dave Green changes charts in gas control room at Dawn compressor station.

Compressor Operators Keith Ryan and Larry Johnston (background) use engine analyzer to make sure Dawn compressor engine is running smoothly.

Field Crew Leader Gord Stinson checks pressure of storage well in Lambton county.

Training Co-ordinator Connie Bren, Head Office, develops training programs for Transmission and Production department personnel.

supports this study as a means of augmenting future supplies and does not anticipate more than a minimal effect on gas costs, should TransCanada's application be granted. At this time the National Energy Board decision is pending.

On April 29, 1975 the National Energy Board began hearing a TransCanada application for a higher allowable rate of return ; an increase in depreciation rates ; and authority to commence collection of deferred income taxes. The increase in gas costs to Union which would result from approval of TransCanada's request is estimated to be some 20¢ per Mcf.

Union Gas participated in the two previous TransCanada hearings and has intervened in the current hearing before the NEB to ensure that the interests of its customers and shareholders are considered and that any cost increases which may result are fully justified.

The Ontario Energy Board has been directed by the Provincial Government to hold an enquiry into the inclusion in utilities' rate base of investments in energy-related projects which are designed to improve the availability and security of energy supplies for the province. Submissions have been invited from the Ontario distributors as to the type of investments to be considered by the Energy Board, and their proposed treatment for rate making purposes. Union has filed its submission with the Energy Board, although no date has yet been set for the public hearing.

System Expansion During fiscal 1975 capital expenditures totalled $43.8 million for additions to and replacement of plant, properties and equipment. Of the total expenditures, some $13 million was directly related to the installation of distribution mains, service lines, meters and regulators to serve the 12,116 new customers added during the year. Expenditures on storage and transmission facilities to meet the peak winter heating requirements of our customers and the other utilities for whom we provide storage and transportation service exceeded $19 million.

A major portion of the capital program for fiscal 1976 is related to the expansion of the Company's transmission system to meet the anticipated increasing peak day heating demand of the residential, commercial and small industrial market. Installation of the 11 miles of 42" pipeline which commenced last fall will be completed later this year and a further 16.6 miles will be installed. (See system map inside back cover.) Another major item in the program is the installation of an additional turbine driven compressor unit at the Bright Compressor Station, located northeast of Woodstock on the main transmission system. This will bring the total installed horsepower at that station to 36,400 and will provide increased transportation capability.

Gas Supply During fiscal 1975 the Company's gas supply totalled 248 Bcf, an increase of 3 Bcf, or 1.2% ,over the total volumes during fiscal 1974. TransCanada supplied some 229 Bcf, or 92.5% of the total.

On November 1, 1974 deliveries to Union commenced under a new 20-year Supply Agreement with TransCanada. While this agreement currently provides for 10.6 Bcf per year for the two contract years commencing November 1, 1974, and thereafter annual volumes of 3 Bcf for the remaining eighteen years of the contract, TransCanada is making every effort to obtain additional supplies in order that the higher deliveries may be continued.

Under the contract with Panhandle Eastern, 13.1 Bcf was delivered. This represents a curtailment of some 14% below the annual contract volumes of 15.2 Bcf, and results from supply shortages experienced by Panhandle. The necessary authorizations for the importation of the volumes covered by this contract will expire in November, 1976 and it is not presently known whether any arrangement may be possible for some continuation of supply by Panhandle, which has played a most important role in providing needed gas supplies to your Company for more than twenty years.

Union Gas continues its policy of offering to purchase all marketable volumes of natural gas discovered and produced within economic distance of its pipeline system,

Consumer Services Representative Theresa Cadotte (kneeling) demonstrates the operation of a new gas range for Petrolia area homemaker.

Windsor service clerk Myra Gillespie dispatches service crew to customer's home. Looking on are Service Personnel Supervisor John Sherman (left) and Head Office Telecommunication Systems Manager Mel Brodie.

Utilization Technician Jim Jones checks water heater performance in test lab at Chatham service centre.

Training Supervisor Ron Stead, Head Office, prepares visual aids for technical presentation.

Windsor Serviceman Dick Hewson uses test meter to check clothes dryer burner controls.

Gas Purchased and Produced*

Volumes in millions of cubic feet

Source:	Year to March 31 1975	% of total	Year to March 31 1974	% of total
TransCanada	229,173	92.5	225,055	91.8
Ontario Producers	3,790	1.5	4,812	2.0
Panhandle Eastern	13,071	5.3	14,610	5.9
Total Purchased	246,034	99.3	244,477	99.7
Produced from Company Wells	1,759	.7	780	.3
Total Gas Supply	247,793	100.0	245,257	100.0

*Excluding gas transmitted and stored for other companies

and during the year was able to contract with 20 local producers under a new standard form of gas purchase contract, which provides for field prices similar to those being paid to Western Canadian producers by TransCanada. The Company feels this is a very attractive incentive to local producers, when considered in the light of different economic criteria associated with drilling and producing natural gas in Ontario, and we are hopeful that this will result in some additional supplies being developed.

While the availability and deliverability of natural gas reserves in the traditional supply areas of Western Canada is of prime concern, the Company continues to evaluate possible alternative energy sources. Our Energy Supply Studies group examines the supply potential and economic feasibility of supplementary fuels. These include synthetic natural gas (SNG) manufactured from coal or oil; coal as a substitute for natural gas in some industrial uses; and liquefied natural gas (LNG). Because of the extensive research and design, as well as the heavy equipment required for these projects, long lead times in the order of six to seven years are needed between a commitment date and actual deliveries of energy.

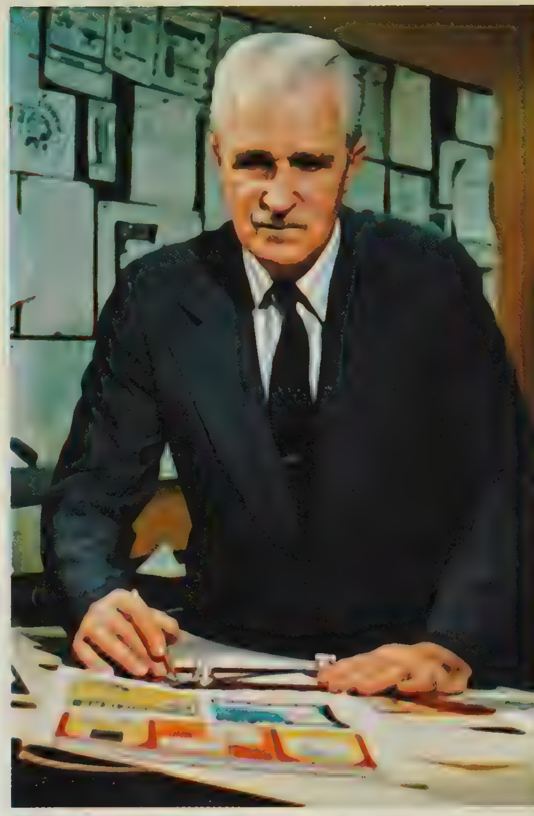
The Company has continued exploration and development activities in Ontario and in Western Canada, and has entered into joint venture arrangements covering much of its leaseholds in Ontario, under which it retains an overriding royalty interest. In addition, Union has a 25% working interest in a joint venture covering some 54,000 acres in Southwestern Ontario, which is being explored under the direction of an independent local producer. During the year the Company participated in the drilling of 4 wells in Ontario, of which 2 were successful. In Western Canada 10 wells were drilled under various co-operative arrangements, of which 3 were successful gas wells, 3 were dry holes and 4 are still in progress.

The importance of Union's underground storage facilities will continue to increase due to rising gas costs and the outlook for restricted supplies. During the year, the Terminus and Bentpath Pools were designated by the Ontario Energy Board for storage use, bringing the number of pools operated by the Company to 8, with a minimum working storage capacity of some 72.3 Bcf. The Terminus and Bentpath Pools were both partially depleted gas fields, one of which was acquired during the year, with the other resulting from Union's own exploration activity.

Although, due to the less severe weather during the past winter, our maximum day system send out was lower than in fiscal 1974, the volumes delivered from storage on that day set a new record, being 18.5% over the peak day withdrawal in fiscal 1974. Union is continually studying potential heating load requirements and plans the development of additional storage facilities to provide assurance of supply to this market.

Other gas utilities are similarly faced with the need to augment pipeline supplies with gas delivered from storage during the heating season, and Union Gas has either concluded, or is negotiating, contracts for storage and transportation service with The Consumers' Gas Company; Northern and Central Gas Corporation; The Kingston Public Utilities Commission; Lowell Gas Company, Massachusetts; and Gaz Métropolitain, inc.


TAKE ONE



External Communications Supervisor Allan Verch prepares booklet advising customers on how to conserve natural gas.

Advertising and Promotion Manager Keith Crummer develops advertisement urging wise use of energy.

Wavy lines recorded on meter charts are "translated" into specific gas flow measurements by Integrator Operator Linda Metcalfe, Gas Supply Statistics department.

Meter Repairman Glenn Hooker re-assembles residential gas meter during final stage of overhaul in Central Meter Repair department at Chatham.

Gas Measurement Technician Bob McWha makes sure pressure regulators are functioning properly at Comber transmission station.

Marketing/Conservation As previously reported, in light of advice from TransCanada PipeLines that, beginning in late 1976, annual delivery rates could decline, your Company determined that it should notify those large volume contract customers with present or potential alternative fuelling capabilities, that it may be necessary at that time to curtail the level of their deliveries in order to meet the increasing requirements of the residential, commercial and small industrial markets. We consider that the fulfillment of our obligation as a public utility is dependent upon a growing number of customers and the promotion of the most efficient use of natural gas.

Union Gas believes that an active conservation program should be part of the management of its available gas supply. A comprehensive conservation program began mid-year and this will be further developed during fiscal 1976. Energy conservation and supply information is reaching our markets through newspaper and radio advertising, mailed brochures, bill enclosures and showroom displays. The information demonstrates energy saving methods, encouraging improvements in home insulation and advocating efficient use of equipment. It is expected that this program will result in a noticeable reduction in per customer consumption levels.

Employees The number of regular employees at March 31, 1975 was 2076, an increase of 42 over the number a year ago. Management and supervisory personnel numbered 566; non-supervisory and clerical 621; and hourly-paid employees 889.

Union Gas continues its efforts to offer to all its people opportunities to expand their qualifications and their roles within the Company and to reach their full potential. Training and development programs include both supervisory and non-supervisory personnel, and a major training program for the pipeline maintenance work force was instituted in the past year.

The Educational Aid Policy reimburses employees for 75% of the cost of tuition fees and text books on successful completion of higher education courses taken outside working hours. In the past year 95 employees took advantage of this program. The majority of the courses taken were through community colleges and university extension programs.

Changes in Directors and Officers At the Annual Meeting of Shareholders on June 18, 1974, three new directors were elected to fill the vacancies created by the retirement of Colin S. Glassco, I. C. M. Rush and D. G. Waldon. The new directors elected were: Ralph M. Barford, George H. Blumenauer and William G. Stewart. Mr. Barford is President of Valleydene Corporation Limited; Mr. Blumenauer is Chairman and President of Otis Elevator Company Limited; and Mr. Stewart was, at the time of his election, the Vice-President, Finance of Union Gas.

Effective October 1, 1974, following the resignation of Bruce F. Willson, Mr. Stewart was appointed President and Chief Executive Officer.

In November 1974, Frank Capewell was appointed Senior Vice-President, Operations, and in January 1975 Mr. Capewell became a member of the Board of Directors, filling the vacancy created by Mr. Willson's resignation.

Following the Annual Meeting in June 1974, Frank M. Edgell, P.Eng., was appointed Vice-President, Marketing and Sales. In November 1974, the following officers were appointed: Henry B. Arndt, C.A. – Vice-President, Finance; John Webel – Vice-President, Administrative Services; David J. Elgee – Secretary; Edna Crawford and John B. McWilliams – Assistant Secretaries; Robert L. Freeland – Assistant Treasurer.

Customer Billing and Central Cashiering Supervisor George Balan discusses bill enclosure with Inserting Machine Operator Sheila Wratten.

Customer Enquiry Clerk Sandy Cluff, London, communicates with computer at Chatham to obtain billing data for customer.

Key Punch Operator Karen Coppens, Head Office, transfers sales statistics to data cards for processing by Company's computer.

Computer Operations Supervisor Adella Zych and Operator Gerry Tetrault check out status of central data processing unit.

Kardex Clerk Brenda Brown, Hamilton, responds to customer request for information.

Statement of Income ($000's)

Union Gas Limited

FOR THE YEAR ENDED MARCH 31	1975	1974
REVENUE		
Gas sales	$222,471	$174,592
Other income	18,329	15,319
	240,800	189,911
OPERATING EXPENSES AND INTEREST		
Cost of gas sent out	145,981	109,832
Other operating and maintenance costs	36,991	30,866
Property and capital taxes	4,332	3,818
Depreciation and amortization (note 2)	8,127	7,310
Interest and expense on long-term debt (note 3)	12,774	11,460
Other interest expense	3,556	1,719
	211,761	165,005
Income before income taxes	29,039	24,906
Income taxes (note 4)		
Current	6,502	6,852
Deferred	8,327	5,350
	14,829	12,202
NET INCOME FOR THE YEAR	14,210	12,704
Dividends on preference shares	998	1,010
EARNINGS APPLICABLE TO COMMON SHARES	$ 13,212	$ 11,694
EARNINGS PER COMMON SHARE	87.4¢	77.4¢

Statement of Accumulated Earnings Retained for Use in the Business ($000's)

	1975	1974
Balance at beginning of year	$ 56,737	$ 54,715
Add net income for the year	14,210	12,704
	70,947	67,419
Deduct dividends declared (rate per annum)		
Preference shares – Class A		
Series A – $2.75 per share	404	413
Series B – $3.00 per share	270	270
Series C – $2.50 per share	324	327
	998	1,010
Common shares –		
64¢ per share in 1975 and 1974	9,672	9,672
	10,670	10,682
Balance at end of year	$ 60,277	$ 56,737

(See accompanying notes)

Balance Sheet ($000's)

Union Gas Limited
Incorporated under the Laws of Ontario

MARCH 31	1975	1974
ASSETS		
PROPERTIES (note 2)		
Distribution systems, transmission lines, gas wells and gathering lines, gas storage facilities, base pressure gas, land and buildings, etc., at cost	$408,327	$367,174
Less accumulated depreciation	73,351	66,973
	334,976	300,201
CURRENT ASSETS		
Accounts receivable (note 6)	45,583	34,191
Inventories of merchandise, stores and spare equipment, valued at the lower of cost and replacement cost	9,654	7,242
Prepayments	389	164
Gas in underground storage, available for current sale, at cost	21,505	11,478
	77,131	53,075
DEFERRED AND OTHER ASSETS		
Mortgages receivable (note 6)	2,847	3,248
Investment in Major Holdings & Developments Limited	2,955	—
Gas Arctic – Northwest Project Study Group expenditures	2,792	1,903
Unamortized discount and expenses on issues of long-term debt	1,950	1,695
Expenses on issue of preference shares	951	—
Deferred gas costs	5,391	5,391
Other deferred charges	902	1,010
	17,788	13,247
	$429,895	$366,523
LIABILITIES		
SHAREHOLDERS' EQUITY		
Capital stock (note 7)		
Preference shares:		
Class A shares with par value of $50 each –		
Authorized: 366,175 cumulative redeemable shares		
Issued: 146,575 5½% Series A	$ 7,329	$ 7,434
90,000 6% Series B	4,500	4,500
129,600 5% Series C	6,480	6,480
Class B shares with par value of $20 each –		
Authorized: 5,000,000 cumulative shares		
Issued: 1,250,000 8¾% Series I, convertible redeemable shares	25,000	—
	43,309	18,414
Common shares without par value:		
Authorized: 22,000,000 shares		
Issued: 15,111,705 shares	31,346	31,346
	74,655	49,760
Accumulated earnings retained for use in the business (note 5)	60,277	56,737
	134,932	106,497
Long-term Debt (note 11)	164,908	153,599
Deferred Income Taxes	56,848	48,521
CURRENT LIABILITIES		
Short-term borrowings	19,020	21,605
Accounts payable and accrued charges	27,882	17,555
Dividend payable	2,418	2,418
Income and other taxes payable	3,958	5,044
Accrued interest on long-term debt	3,753	3,403
Long-term debt instalments due within twelve months (note 11)	16,176	7,881
	73,207	57,906
	$429,895	$366,523

On behalf of the Board

R. W. Todgham, Director

W. G. Stewart, Director

(See accompanying notes)

Statement of Changes in Financial Position ($000's)

Union Gas Limited

FOR THE YEAR ENDED MARCH 31	1975	1974
FUNDS PROVIDED		
From operations	$ 32,198	$ 26,003
Proceeds from issue of long-term debt	27,522	19,616
Proceeds from issue of preference shares (note 7)	24,049	—
Net repayments on mortgages receivable	482	1,104
	$ 84,251	$ 46,723
FUNDS APPLIED		
Net expenditure on properties	$ 43,805	$ 28,124
Retirement of long-term debt	16,691	8,292
Dividends declared – common shares	9,672	9,672
– preference shares	998	1,010
Purchase of preference shares for cancellation	105	572
Gas Arctic – Northwest Project Study Group expenditures	889	728
Investment in Major Holdings & Developments Limited	2,800	—
Deferred charges	536	1,508
Increase (decrease) in working capital	8,755	(3,183)
	$ 84,251	$ 46,723

(See accompanying notes)

Notes to Financial Statements

1. Significant accounting policies

The Company is subject to regulation under The Ontario Energy Board Act and The Energy Act, 1971 and, in connection with the determination of revenue and rates, the accounting practices followed by the Company are approved as appropriate by the Ontario Energy Board. The Company is presently in the second phase of a full hearing before the Board to set new rates; certain accounting practices approved by the Board are to be implemented when the Board sets final rates relative to this hearing.

Properties and depreciation – Properties are carried at cost which includes all direct costs, an allocation of overhead incurred during construction and interest costs applicable to the cost of new properties during the construction period. Interest is capitalized at a rate based on current interest rates.

Depreciation is provided on the straight-line basis at various rates based on periodic review by consultants of the useful service life of each class of property. Estimated useful lives of major property classifications are as follows:

Transmission mains	75 years
Distribution mains	70 years
Buildings and service lines	50 years
Storage plant, compressors, meters and purification, measuring and regulating equipment	30 to 40 years

Accumulated premiums of $1,778,000 paid on acquisition of subsidiary companies and included in properties, are being amortized over a ten-year period commencing April 1, 1974.

Based on a request of the Company to provide depreciation for any property class on a straight-line basis at a minimum rate of 2.25% to recognize present uncertainties related to future gas supplies, the Ontario Energy Board has approved the implementation of such minimum rate, which will result in an annual increase of approximately $2,000,000 in the provision for depreciation, commencing at the time when final rates for the sale, transportation and storage of gas become effective by order of the Board.

Oil and gas exploration and development –
All exploratory and development costs under the Company's exploration program being carried out in Ontario and Western Canada are accumulated by geographical areas of interest until the results of each project are determined. Costs related to producing areas are transferred to the appropriate property accounts and depreciation is provided at rates recommended by consultants. Costs related to areas determined to be of no interest are written off to income. Exploratory lease rentals not related to the program are charged against income as incurred.

Income taxes –
As a result of claiming allowances for income tax purposes for depreciation, certain construction overheads, natural gas exploration and deferred gas costs in excess of amounts charged in arriving at income for the year, income taxes currently payable are less than the total provision for income taxes shown on the statement of income. The deferred provisions for income taxes aggregating $56,848,000 at March 31, 1975 and $48,521,000 at March 31, 1974 are described in the balance sheet as "Deferred income taxes".

Investment in Major Holdings & Developments Limited –
During the 1975 fiscal year the Company purchased 765,905 (35.6%) common shares of Major Holdings & Developments Limited at an aggregate cost of $2,800,000. Income from this investment accounted for on the equity basis amounted to $193,000, after amortization of premium on acquisition. A dividend of $38,000 was received during the fiscal year ended March 31, 1975.

Gas Arctic – Northwest Project Study Group expenditures –
The Company is one of 20 participants in a study group, operating through Canadian Arctic Gas Study Limited, whose purpose is to obtain the necessary regulatory approvals for the construction of a high pressure gas transmission pipeline from the northern regions of Canada and Alaska to markets in Canada and the United States.

The Company's contributions to the Study are being deferred in the accounts until the feasibility of the project has been determined and necessary regulatory approvals obtained. If the project is approved by the National Energy Board and other applicable regulatory bodies, the Study Group agreement calls for the participants to sell the information and knowledge resulting from the Study and all their interest in the project to one or more pipeline companies incorporated for the purpose of implementing the project, for a price at least equal to the costs incurred. The agreement also provides that the participants shall have an opportunity to acquire ownership interest in the pipeline companies. On the other hand, in the event the project does not proceed, costs not recovered would be charged against operations in a manner to be approved by the Ontario Energy Board.

Unamortized discount and expenses on issues of long-term debt –
These are amortized over the terms of the related issues.

Expenses on issue of preference shares –
Expenses incurred on the issue of Class B convertible preference shares on March 31, 1975 will be amortized over a ten-year period commencing April 1, 1975 by regular charges against accumulated earnings retained for use in the business.

Deferred gas costs –
To enable the Company's major supplier, TransCanada PipeLines Limited, to finance expansion of pipeline facilities necessary for delivery of future volumes of gas, the Company agreed with TransCanada to pay an increased rate of 2.1c per mcf for gas purchased from January 1, 1972 until rates approved by the National Energy Board became effective in June 1973. The amount of this additional gas cost has been deferred and the Company expects to amortize these costs over a ten-year period commencing at the time when final rates for the sale, transportation and storage of gas become effective by order of the Ontario Energy Board.

Other deferred charges –
A principal amount included in other deferred charges is the cost of rate hearings which is to be amortized over a three-year period effective with the commencement of final rates by order of the Ontario Energy Board.

Employee pension plan –
The unfunded past service obligation which has resulted from revisions of the Company's pension plan as of January 1, 1966, 1970, 1971 and 1975 totals $3,549,000 ($1,736,000 at March 31, 1974). Based on actuarial advice, amounts funded and charged against operations were $284,000 in 1974 and $367,000 in 1975. $615,000 will be funded and charged from 1976 to 1979 and gradually reducing amounts in subsequent years to 1990.

Earnings per common share –
Earnings per common share are calculated on the basis of the weighted average number of shares outstanding during the year.

2. Properties and depreciation

The following is a summary analysis of the cost of properties:

	March 31 1975	March 31 1974
	($000's)	
Production	$ 7,505	$ 7,831
Storage	33,110	22,380
Transmission	118,099	108,472
Distribution	213,603	195,565
General	36,010	32,926
	$408,327	$367,174

Included in the properties accounts are costs of $2,225,000 at March 31, 1975 and $1,487,000 at March 31, 1974 related to projects in progress under the Company's program of exploring for and developing natural gas.

Depreciation and amortization shown on the income statement includes those amounts charged directly as an operating

expense in the Company's accounts. In addition $485,000 was allocated partly to other expense accounts and partly to property accounts.

3. Interest and expense on long-term debt

The amounts shown for interest on long-term debt, including discount and expenses amortized, are the amounts charged directly as an operating expense in the Company's accounts. In addition $976,000 was charged to construction in the year ended March 31, 1975 (1974 – $260,000).

4. Income taxes

Income taxes currently payable in the 1975 fiscal year were higher by $518,000 because of the Federal temporary surtax of 10% imposed from May 1, 1974 to April 30, 1975. The provision for deferred taxes, however, was calculated on the basis of tax rates without the surtax, in accordance with approval received from the Ontario Energy Board. The surtax applicable to such deferred taxes would have been $476,000.

5. Accumulated earnings retained for use in the business

The trust deeds and indentures providing for the issue of the Company's bonds and debentures contain certain restrictions regarding the amount that may be paid as dividends. Accumulated earnings retained for use in the business in the amount of $40,776,000 at March 31, 1975 were free from limitation under the most stringent of these restrictions.

6. Accounts receivable and mortgages receivable

Accounts receivable include $7,805,000 at March 31, 1975 ($8,652,000 at March 31, 1974) in merchandise finance plan accounts of which $3,973,000 ($4,556,000 at March 31, 1974) is not due within twelve months. Mortgages receivable at March 31, 1975 include $752,000 ($891,000 at March 31, 1974) in principal instalments due within twelve months.

7. Capital stock

(a) During the year, the preference shares with a par value of $50 each were reclassified as Class A shares and the authorized capital of the Company was increased by creating 5,000,000 Class B preference shares with a par value of $20 each.
(b) The Class A preference shares are redeemable as follows:
Series A – at $51.00 per share up to March 30, 1976 and thereafter at $50.50 per share,
Series B – at $55.00 per share at any time,
Series C – at $51.50 per share up to March 29, 1977, then reducing to $51.00 to March 1981 and $50.50 per share thereafter.

Under the conditions attaching to the Series A and Series C preference shares, the Company is committed to purchase shares for cancellation if their market prices fall to par or below as follows:
Series A – in amounts up to $170,000 annually,
Series C – in amounts up to $140,000 annually

As required by the Articles of the Company, a special allocation of retained earnings is shown on the books of the Company to reflect this commitment. During the fiscal year ended March 31, 1975 in compliance with the foregoing conditions, 2,106 Series A shares with an aggregate par value of $105,300 were purchased and cancelled.
(c) On March 31, 1975, the Company issued for cash 1,250,000 8¾% Cumulative Convertible Redeemable Class B Preference Shares, Series 1 with a par value of $20 each. These shares are not redeemable prior to March 31, 1980. On and after March 31, 1980, the shares will be redeemable at the option of the Company at a redemption price of $21.40 per share if redeemed on or before March 31, 1981 and reducing annually in gradual amounts to $20 per share if redeemed after March 31, 1985. In addition, these preference shares are convertible into common shares of the Company on or prior to March 31, 1985 at a rate of 2.2 common shares for each preference share.
(d) 218,250 common shares have been reserved under stock option plans for senior employees. During the 1975 fiscal year, options were granted on 89,900 shares at $7.31 and options on 13,700 shares at $13.05 were cancelled. Amounts under option at present are as follows:

Number of shares	Option price	Market price at date of option	Date of expiry of option
89,900	$ 7.31	$ 8⅛	October 1, 1980
83,350	13.05	14½	April 6, 1978
25,000	13.90	14⅝	May 31, 1981
4,500	13.06	13¾	December 1, 1981

If the foregoing outstanding options were exercised, there would be no material dilution of earnings per share.

8. Directors' and senior officers' remuneration

Direct remuneration of directors and senior officers totalled $467,000 during the year ended March 31, 1975.

9. Capital expenditures

Capital expenditures of approximately $52,000,000 are planned for the fiscal year ending March 31, 1976.

10. Subsequent event

On April 17, 1975 the Company announced that it is prepared to invest up to $68 million in the common shares of Canadian Arctic Gas Pipeline Limited to assure long-term, large volume supplies of gas for Southwestern Ontario in future years. An initial amount of $50 million would be paid in three equal instalments over an 18 to 24-month period commencing on the date when the Canadian Arctic Gas Pipeline common shares are first offered to the Company which at present is anticipated to be in 1976. The Company's investment is contingent upon the receipt of necessary government approvals including recognition of the cost of this investment in the Company's sales rates, financing conditions being satisfactory to the Company and the Company being able to work out a satisfactory plan for the purchase of arctic gas.

11. Long-term debt

Details of this debt as at March 31, 1975 and 1974 are as follows:

	Total outstanding	Current liability	Long-term portion 1975	Long-term portion 1974
		($000's)		
First Mortgage and Collateral Trust Sinking Fund Bonds:				
5% Series "B" due December 1, 1977	$ 3,558	$ 891	$ 2,667	$ 3,571
5¼% Series "C", due January 15, 1978	6,170	970	5,200	6,400
6% Series "D", due October 1, 1977	2,853	9	2,844	3,106
	12,581	1,870	10,711	13,077
Debentures (all sinking fund except serial 1968 Series):				
5½% 1958 Series, due December 1, 1977	4,393	393	4,000	4,400
5¾% 1961 Series, due July 15, 1981	8,448	598	7,850	8,450
5¾% 1963 Series, due August 15, 1983	10,050	500	9,550	10,050
5⅞% 1965 Series, due September 1, 1985	11,995	520	11,475	12,000
7% 1967 Series, due January 5, 1987	12,595	520	12,075	12,600
7¾% serial 1968 Series, due August 1, 1975-76	1,200	550	650	1,200
7¾% 1968 Series, due August 1, 1988	17,000		17,000	17,000
9⅛% 1970 Series, due April 1, 1990	10,000	9,725	275	10,000
8% 1971 Series, due November 15, 1991	20,000		20,000	20,000
8⅜% 1972 Series, due November 15, 1992	15,000		15,000	15,000
8% 1972 U.S. Series, due November 15, 1992 (U.S. $10,000,000)	9,822		9,822	9,822
8¼% 1973 Series, due June 1, 1993	20,000		20,000	20,000
11% 1974 Series, due August 15, 1994	25,000		25,000	
Debenture at prime bank interest rate plus 1% $1,500,000 due January 1, 1976 and January 1, 1977	3,000	1,500	1,500	
	168,503	14,306	154,197	140,522
Total amounts per balance sheet	$181,084	$16,176	$164,908	$153,599

The principal amounts of bonds and debentures required to be retired through sinking funds or serial redemptions during the next five years ending March 31 are as follows: 1976 – $6,451,000; 1977 – $7,265,000; 1978 – $15,418,000; 1979 – $4,605,000; 1980 – $5,455,000. In addition $9,725,000 of the 9⅛% 1970 Series debentures is repayable on April 1, 1975.

Auditors' Report

To the Shareholders of Union Gas Limited:

We have examined the balance sheet of Union Gas Limited as at March 31, 1975 and the statements of income, accumulated earnings retained for use in the business and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at March 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada, May 5, 1975.

Financial and Operating Statistics

Union Gas Limited

FISCAL YEARS ENDED MARCH 31	1975	1974	1973	1972	1971	1970
Revenues, Expenses and Net Earnings ($000's)						
REVENUES:						
Gas sales	$222,471	$174,592	$151,416	$131,577	$122,326	$110,232
Other income	18,329	15,319	13,105	11,845	10,257	9,339
Total revenue	240,800	189,911	164,521	143,422	132,583	119,571
EXPENSES:						
Cost of gas sent out	145,981	109,832	86,453	72,166	63,383	54,992
Other operating and maintenance costs	41,323	34,684	32,340	29,650	29,396	27,395
Depreciation and amortization	8,127	7,310	6,596	5,977	5,471	5,091
Interest on long-term debt and other debt	16,330	13,179	10,229	9,281	8,468	7,821
Total expenses	211,761	165,005	135,618	117,074	106,718	95,299
Income before income taxes	29,039	24,906	28,903	26,348	25,865	24,272
Income taxes	14,829	12,202	12,885	11,851	13,126	12,327
Net income	14,210	12,704	16,018	14,497	12,739	11,945
Preference share dividends	998	1,010	1,038	1,046	1,060	1,061
Net earnings applicable to common shares	$ 13,212	$ 11,694	$ 14,980	$ 13,451	$ 11,679	$ 10,884
Earnings per common share*	87.4¢	77.4¢	99.1¢	89.0¢	77.3¢	72.2¢
Dividends declared per common share	64.0¢	64.0¢	64.0¢	59.5¢	58.0¢	52.0¢
Statement of changes in Financial Position ($000's)						
FUNDS PROVIDED:						
From operations	$ 32,198	$ 26,003	$ 29,980	$ 25,464	$ 23,448	$ 21,274
Proceeds from issue of long-term debt	27,522	19,616	24,383	19,618	9,847	—
Proceeds from share issues– common	—	—	—	38	42	795
preference	24,049	—	—	—	—	—
Net repayments on mortgages receivable	482	1,104	1,714	(–)254	1,192	(–)896
Total	$ 84,251	$ 46,723	$ 56,077	$ 44,866	$ 34,529	$ 21,173
FUNDS APPLIED:						
Net expenditure on properties	$ 43,805	$ 28,124	$ 32,459	$ 25,426	$ 28,215	$ 17,836
Dividends declared – common shares	9,672	9,672	9,672	8,990	8,761	7,835
preference shares	998	1,010	1,038	1,046	1,060	1,061
Retirement of long-term debt	16,691	8,292	5,751	5,180	4,660	4,478
Purchase of preference shares for cancellation	105	572	173	293	44	24
Deferred charges	536	1,508	3,911	827	72	49
Gas Arctic – Northwest Project Study Group expenditures	889	728	1,175	—	—	—
Investment in Major Holdings & Developments Limited	2,800	—	—	—	—	—
Increase in working capital	8,755	(–)3,183	1,898	3,104	(–)8,283	(–)10,110
Total	$ 84,251	$ 46,723	$ 56,077	$ 44,866	$ 34,529	$ 21,173

*On basis of the weighted average number of shares outstanding during the year

Statistics continued

Union Gas Limited

FISCAL YEARS ENDED MARCH 31	1975	1974	1973	1972	1971	1970
Customers (end of year)						
Residential	347,232	336,552	323,042	309,276	298,322	290,205
Commercial	38,284	37,092	35,131	34,309	33,599	32,501
Industrial	4,214	3,970	3,510	3,409	3,318	3,161
Other utilities	11	11	8	12	11	10
Total	389,741	377,625	361,691	347,006	335,250	325,877
Gas sales – MMCF**						
Residential	45,786	44,285	44,294	40,389	39,695	39,274
Commercial	37,866	34,230	31,881	26,736	23,985	21,748
Industrial	143,810	136,897	121,863	102,037	94,171	73,667
Other utilities	5,656	5,086	4,658	4,089	3,570	3,229
Total	233,118	220,498	202,696	173,251	161,421	137,918
Gas sales revenue – ($000's)						
Residential	$ 64,548	$ 53,471	$ 50,561	$ 46,193	$ 45,289	$ 44,690
Commercial	43,109	33,317	29,405	25,063	22,756	20,934
Industrial	110,198	84,362	68,652	57,883	52,120	42,681
Other utilities	4,616	3,442	2,798	2,438	2,161	1,927
Total	$222,471	$174,592	$151,416	$131,577	$122,326	$110,232
Average gas use per customer – MCF*						
Residential	134.7	134.6	140.9	133.5	135.7	138.2
Commercial	1,013.7	947.3	925.8	790.5	730.0	687.7
Gas balance – MMCF**						
Gas produced from Company wells	1,759	780	1,888	1,661	4,523	2,764
Gas purchased:						
Ontario sources	3,790	4,812	6,094	8,264	11,485	7,987
Other sources	242,244	239,665	200,736	166,295	147,722	115,525
Gas received under storage, transmission, etc., contracts, less purchased in place	213,823	165,997	118,672	113,543	101,940	107,058
Total all gas	461,616	411,254	327,390	289,763	265,670	233,334
Gas into storage	60,363	55,597	47,526	41,723	43,205	32,850
Gas out of storage	57,465	37,154	46,123	48,769	37,734	45,209
Net gas into or out of (–) storage	2,898	18,443	1,403	(–)7,046	5,471	(–)12,359
Total gas sent out	458,718	392,811	325,987	296,809	260,199	245,693
Gas sales	233,118	220,498	202,696	173,251	161,421	137,918
Gas delivered under storage, transmission, etc., contracts	217,627	163,300	118,931	118,069	97,169	106,091
Company use	1,224	1,048	1,232	1,292	1,101	950
Unbilled, unaccounted for, etc.	6,749	7,965	3,128	4,197	508	734
	458,718	392,811	325,987	296,809	260,199	245,693
Maximum day send-out – MCF*	1,878,710	1,902,613	1,809,654	1,795,959	1,637,682	1,430,529
Gas out of storage on maximum day – MCF*	1,169,532	987,016	900,121	1,022,249	856,531	742,038
Degree day deficiency	7,097	6,981	7,127	7,045	7,100	7,746

*MCF means thousand cubic feet
**MMCF means million cubic feet

Statistics continued

FISCAL YEARS ENDED MARCH 31	1975	1974	1973	1972	1971	1970
Condensed Balance Sheet ($000's)						
ASSETS:						
Properties	$408,327	$367,174	$341,820	$312,458	$290,127	$264,100
Less accumulated depreciation	73,351	66,973	61,999	58,065	54,786	51,124
	334,976	300,201	279,821	254,393	235,341	212,976
Current assets	77,131	53,075	35,596	34,800	33,998	32,805
Deferred and other assets	17,788	13,247	11,936	8,302	6,993	8,119
Total	$429,895	$366,523	$327,353	$297,495	$276,332	$253,900
LIABILITIES:						
Shareholders' equity –						
Preference shares	$ 43,309	$ 18,414	$ 18,986	$ 19,159	$ 19,452	$ 19,496
Common shares	31,346	31,346	31,346	31,346	31,308	31,266
Retained earnings	60,277	56,737	54,715	49,407	44,946	42,028
Total	134,932	106,497	105,047	99,912	95,706	92,790
Long-term debt	164,908	153 599	141,891	122,820	108,000	102,660
Deferred income taxes	56,848	48,521	43,171	36,417	31,978	27,278
Current liabilities	73,207	57,906	37,244	38,346	40,648	31,172
Total	$429,895	$366,523	$327,353	$297,495	$276,332	$253,900
Equity Per Common Share						
No par value common shares outstanding ($000's)	15,112	15,112	15,112	15,112	15,108	15,104
Equity per share	$ 6.06	$ 5.83	$ 5.70	$ 5.34	$ 5.05	$ 4.85
Properties ($000's)						
Gross book value beginning of year	$367,174	$341,820	$312,458	$290,127	$264,100	$248,609
ADDITIONS:						
Plant acquisitions and additions	36,601	20,821	24,382	19,278	23,169	13,286
Plant replacements	6,866	7,313	8,177	6,151	4,923	4,721
Gross additions and replacements	43,467	28,134	32,559	25,429	28,092	18,007
RETIREMENTS:						
Gross value of plant retired	2,314	2,780	3,197	3,098	2,065	2,516
Net additions to Properties	41,153	25,354	29,362	22,331	26,027	15,491
Gross book value end of year	$408,327	$367,174	$341,820	$312,458	$290,127	$264,100
Miles of pipelines						
Gathering and storage lines	421	461	465	481	499	572
Transmission lines	1,780	1,755	1,726	1,708	1,688	1,644
Distribution lines	7,033	6,851	6,672	6,448	6,212	5,977
Total	9,234	9,067	8,863	8,637	8,399	8,193

Union Gas Limited

Head Office:
50 Keil Drive North, Chatham, Ontario

Directors

Ralph M. Barford, *Toronto*
President, Valleydene Corporation Limited

G. H. Blumenauer, *Hamilton*
Chairman of the Board and President, Otis Elevator Company Limited

John D. Bradley, *Chatham*
President, Bradley Farms Limited and First Chatham Corporation Limited

Frank Capewell, *Chatham*
Senior Vice-President, Operations, Union Gas Limited

John B. Cronyn, *London*
Company Director

C. Malim Harding, O.B.E., *Toronto*
Chairman of the Board, Harding Carpets Limited

F. W. P. Jones, *London*
Financial Consultant

H. B. Keenleyside, C.B.E., *Toronto*
Company Director

W. Dent Smith, LL.D., *Wilmington Delaware*
Company Director

W. G. Stewart, C.A., *Chatham*
President and Chief Executive Officer, Union Gas Limited

Ron W. Todgham, *Windsor*
President, Chrysler Canada Limited

William H. Watson, *Chatham*
President, Huron Construction Company Limited

Donald J. Wright, Q.C., *Toronto*
Partner, Lang, Michener, Cranston, Farquharson and Wright

Principal Officers

Ron W. Todgham
Chairman of the Board

W. G. Stewart, C.A.
President and Chief Executive Officer

F. Capewell
Senior Vice-President, Operations

H. B. Arndt, C.A.
Vice-President, Finance

R. G. Caughey, P. Eng.
Vice-President, Gas Supply

F. M. Edgell, P. Eng.
Vice-President, Marketing and Sales

J. Webel
Vice-President, Administrative Services

G. I. Wonnacott
Vice-President, Industrial Relations

D. J. Elgee
Secretary

R. G. James, B.Comm.
Treasurer

G. E. Miller, C.A.
Comptroller

Transfer Agents

Class A Preference Shares
5½% Series A
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

6% Series B
Canada Permanent Trust Company
Toronto, Montreal and Calgary

5% Series C
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Calgary

Class B Preference Shares
8¾% Series 1
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

Common Shares
Canada Permanent Trust Company
Toronto, Montreal and Calgary

The Chase Manhattan Bank
New York

Registrars

Class A Preference Shares
5½% Series A
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

6% Series B
Canada Permanent Trust Company
Toronto, Montreal and Calgary

5% Series C
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg and Calgary

Class B Preference Shares
8¾% Series 1
Canada Permanent Trust Company
Toronto, Montreal, Winnipeg, Calgary and Vancouver

Common Shares
Crown Trust Company
Toronto and Montreal

Canada Permanent Trust Company
Calgary

Chemical Bank
New York

Dividend Disbursing Agent

Class A Preference Shares, Series A, B and C; Class B Preference Shares, Series 1 and Common Shares
Canada Permanent Trust Company
Toronto

Trustees for Bond and Debenture Issues

First Mortgage Bonds
Canada Permanent Trust Company
Toronto

1968 Series, 1970 Series, 1971 Series, 1972 Series, 1973 Series and 1974 Series Debentures
The Royal Trust Company
Toronto

Debentures other than 1968 Series, 1970 Series, 1971 Series, 1972 Series, 1973 Series and 1974 Series
Canada Permanent Trust Company
Toronto

Annual Meeting of Shareholders

Shareholders are cordially invited to attend the Annual Meeting to be held at the Head Office of the Corporation, 50 Keil Drive, North, Chatham, Ontario, on Tuesday, June 24, 1975, at 11 o'clock a.m. (Eastern Daylight Time).

Produced in Canada by Southam Murray

UNION GAS
LIMITED

AR03

...recommendations to the Ontario Cabinet.

On November 3, 1975 the Ontario Energy Board issued its Reasons for Decision on the second phase of the full review of Union's rates, originally applied for in May 1973. This phase dealt with the establishment of new rate schedules to give effect to the Energy Board's earlier determination of the Company's allowable revenue. The Board essentially confirmed the proposed rates – already implemented on an interim basis – with some minor modifications which do not affect the overall revenues to be generated. The Company received approval of its request to institute a uniform rate zone for the entire service territory, replacing the former two-zone system.

On November 4, 1975, Union filed with the Ontario Energy Board an application for a new full rate hearing into the Company's rate base, allowable rate of return and overall cost of service. Incorporated in this application is a request for an interim rate increase to pass on to customers increased gas costs.

In requesting Energy Board approval to adjust rates for the increased cost of gas, the Company has taken into account the substantial volumes purchased and placed in storage prior to the November 1 increase in the wholesale price. Consequently, it has requested implementation of the adjusted rates during January 1976.

The public hearing of Union's application will commence before the OEB early in December, dealing first with the Company's request for interim gas cost increases and proceeding to determination of the annual revenue requirement. Following such determination by the Board, a further stage of the hearing will be necessary to set new rates based on the approved revenue.

W. G. Stewart
President and Chief Executive Officer

PRINTED IN CANADA

Canerp

Six-month Report to Shareholders

Including financial information for the three-month, six-month and twelve-month periods ended **September 30, 1975 and 1974**

UNION GAS LIMITED

November 21, 1975

file

UNION GAS LIMITED

Interim statement of income*

	Three months ended September 30 1975	Three months ended September 30 1974	Six months ended September 30 1975	Six months ended September 30 1974
			(thousands of dollars)	
Gas sales	$ 43,577	$ 30,200	$104,951	$ 72,08
Other income	4,617	4,403	9,519	8,31
	48,194,000	34,603,000	114,470,000	80,39
Cost of gas sent out	31,418	21,516	70,662	47,87
Other operating and maintenance costs . .	9,778	8,192	19,541	16,09
Property and capital taxes	1,354	1,094	2,512	2,13
Depreciation	2,246	1,978	4,480	3,98
Interest and expense on long-term debt . .	3,391	3,143	6,648	5,99
Other interest expense	940	728	1,376	1,26
	49,127	36,651	105,219	77,34
Income before income taxes	(933)	(2,048)	9,251	3,04
Income taxes	(572)	(1,094)	4,365	1,41
Net income	(361)	(954)	4,886	1,63
Dividends on preference shares	793	251	1,596	50
Earnings applicable to common shares . .	$ (1,154)	$ (1,205)	$ 3,290	$ 1,13
Earnings per common share	$ (.07)	$ (.08)	$ .22	$ .0

*This statement is unaudited and subject to year-end adjustments and is not to be taken as a prediction for the fiscal
nature and influenced by weather conditions.

Notes: 1. Earnings per common share are calculated on the weighted average number outstanding in the periods.

2. Fully diluted earnings per share (assuming conversion of the Class B Preference Shares which were issued M
April 1, 1975) are $(.03) for the three-month period ended September 30, 1975, $.25 for the six-month peri
$1.00 for the twelve-month period ended September 30, 1975.

Twelve months ended September 30	
1975	1974
255,341	$186,749
19,535	17,043
274,876	203,792
168,768	120,529
40,441	32,672
4,711	4,137
8,619	7,635
13,430	11,828
3,663	2,671
239,632	179,472
35,244	24,320
17,779	11,881
17,465	12,439
2,094	1,001
15,371	$ 11,438
1.02	$ .76

the business is seasonal in

, 1975 had taken place on
d September 30, 1975 and

UNION GAS LIMITED

Interim statement of change in financial position

	Six months ended September 30	
	1975	**1974**
	(thousands of dollars)	
Funds Provided:		
From operations	$ 12,918	$ 8,725
Proceeds from issue of long-term debt	29,398	27,499
Net repayments on mortgages receivable	385	469
	$ 42,701	$ 36,693
Funds Applied:		
Net expenditure on properties	$ 17,484	$ 17,369
Retirement of long-term debt	2,376	11,979
Dividends declared – common shares .	4,821	4,836
– preference shares .	1,596	501
Purchase of preference shares for cancellation	255	69
Gas Arctic – Northwest Project Study Group expenditures	985	480
Investment in Major Holdings and Developments Limited	120	2,769
Other items, net	118	716
Increase (decrease) in working capital .	14,946	(2,026)
	$ 42,701	$ 36,693

To the Shareholders:

In the second quarter of the current fiscal year, ended September 30, 1975, there was a loss of 7 cents per common share compared with a loss of 8 cents per common share in the same period a year ago. However, because first-quarter earnings were 29 cents a share, the net result of 22 cents a share for the first half is an improvement over the 7.5 cents reported for the first half of the preceding fiscal year.

Shareholders are reminded that because the energy business is cyclical in nature, results for the first half, a warm-weather period, are not necessarily an indicator of expectations for the full fiscal year. However, the first half improvement is gratifying because it compares with a particularly depressed period a year earlier.

Following lengthy hearings in 1974, the Ontario Energy Board established the Company's allowable rate of return on rate base at 9.6 per cent. A rate of only 9 per cent was achieved in the last fiscal year. While the current level of return shows an improvement, it remains below 9.6 per cent.

While the net loss for the most recent three-month period was $361,000, net income for the first half was $4,886,000 compared with $1,631,000 for the same six months in 1974.

Gas sales revenue for the six months was $104,951,000. While this represents an increase of 45.6% over the same period of 1974, gas sales volume rose only 2.1%. The larger gain in revenue is a direct result of the increased rates being charged to customers, largely to pass on increased gas prices being charged by our suppliers.

Other income of $9,519,000 was 14.5% greater than for the 1974 period. The increase is mainly due to higher revenues from gas equipment rentals and service charges.

The Company has entered into contracts with Northern and Central Gas Corporation and Gaz Metropolitain, inc. to provide storage and transmission service for those companies. The contracts have an effective date of April 1, 1975 and call for up to 4 billion cubic feet to be stored in the contract year ending March 31, 1976. However, no revenue or expense related to these contracts has been recorded in the accounts to date, since construction of additional pipeline facilities to provide service is still incomplete.

Expense levels continued to rise and total expenses of $105,219,000, including gas costs, were 36% above those in the 1974 period. Gas costs increased by 47.6% to $70,662,000.

As of November 1, 1975 the price paid by Union to TransCanada PipeLines increased by about 42¢ per Mcf (1000 cubic feet). This results from National Energy Board approval of new wholesale gas rates based on agreement between the Federal and Alberta Governments that the "city gate" price at Toronto should be fixed at $1.25 per million BTU's (equivalent to approximately 1000 cubic feet of natural gas). When applied to Union's annual purchases from TransCanada, the price increase totals some $100 million per year.

The agreement between the Federal and Alberta Governments as to pricing covers an eight-month period to June 30, 1976 and a further review of natural gas prices is planned early in 1976. The Federal Government has indicated that it wishes to see natural gas priced at commodity value with competing fuels and does not consider that this has yet been reached.

Union continues to be opposed to any further increases in the wholesale price of natural gas. Much more detailed study of comparative pricing at the retail level is necessary. Time must be allowed to assess the market reaction to the latest price increase before reaching any conclusions on additional increases.

The Ontario Energy Board has concluded its public enquiry into the question of the inclusion in customer rates of costs associated with investments by the Ontario gas distributors in energy-related projects, such as Arctic pipelines. Union filed a Submission to the Energy Board and participated in the hearing. The